



Modern sales channel on the example of Eurocash Group - organizational and legal approach

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ABSTRACT

The aim of the study was to present the organizational and legal conditions of the Eurocash Group, the market leader in wholesale distribution of FMCG products which also widely operates in retail sales, mainly in the partner and franchise system. The scope of the discussion covered the specificity of retail and wholesale trade and the organizational and legal structure. The paper presents individual sales formats included in the Eurocash Group, i.e. Cash & Carry stores, retail stores, the so-called area of active and specialized distribution. The functioning of modern trade refers to an innovative approach in terms of organizational and legal forms, including operating within capital groups and development through franchise. This allows the complementarity of individual store formats, guaranteeing retail and institutional customers a comprehensive realization of purchase orders.

Keywords: Eurocash Group, wholesale and retail trade, capital group

1. INTRODUCTION

After 1989 under the influence of political and socio-economic transformations, the market was opened up and we joined the free market economy, whose high absorption caused

the influx of many foreign investors. In the 1990s, the most popular form of introduction of well-known international retail chains were large-scale stores, introducing new products, technologies and forms of customer service to our market [1]. The functioning of modern commerce refers to the innovative approach in the field of organizational and legal forms, including functioning in the framework of capital groups and the development through the franchise.

The aim of this study was to present the organizational and legal conditions of functioning of the Eurocash Capital Group with particular regard to the organizational structure, business segments and industry specificity. The case analysis method was used to demonstrate the role of modern sales channels on the example of the selected company, i.e. Eurocash Group.

2. TRADE - DEFINITIONAL APPROACH

Trade is defined as an economic activity that involves professional intermediation in commodity exchange, i.e., trade is the purchase of goods for further resale [2].

It performs tasks related to [3]:

- a) purchasing and offering at the right place and time goods belonging to one or many different categories of products,
- b) maintaining the stock of goods to ensure the continuous availability of supplies,
- c) incurring commercial risk,
- d) providing information, providing sales services,
- e) creating conditions for making a purchase, providing other services resulting from the business concept (home delivery, e-shopping, etc.).

In trade it is important to shape relevant business relations in the context of the management process, including all stakeholder groups. Relevant pricing, communication and promotion strategies are also essential [4].

Wholesale trade is a link that buys large quantities of goods from manufacturers, purchasing companies and importing companies for the purpose of selling, also in larger quantities, to retailers or other business entities.

The main functions of wholesale trade include:

- a) gathering and storing stocks,
- b) organizing the movement of goods,
- c) transforming production assortment into commercial assortment,

Among the various forms of wholesale trade of articles of everyday use in the Polish market, including food, the following can be distinguished [5]:

- a) wholesale micro companies, which are usually local firms with relatively narrow assortment and limited scope of services,
- b) the so-called active wholesale companies, offering a wide range of services to manufacturers of goods and retail,
- c) wholesalers operating e-commerce,
- d) self-service wholesale companies (Cash and Carry wholesalers).

Cash & Carry ("pay and take") self-service wholesalers in Poland, offering the widest but shallow assortment of consumer goods to small retailers, catering companies, hotels and others, are increasingly gaining trust of customers in Poland. Customers personally choose the goods, pay and use own means of transport to deliver goods to their destination. Large objects, consisting of about 20-30 thousand of different articles are located on the outskirts of cities and have an area of about 10 thousand m² with parking lot for 1000 and more cars. Their customers can only be business people and have a 'regular customer' card.

Retail, according to Kotler (2012), covers all activities aimed at selling products and services directly to the consumer for his personal, non-commercial use, in small quantities [6]. Every organization that runs such a sale - a producer, a wholesaler, or a retailer - deals with retail. The primary function of retailing is to provide end-users on a permanent basis with goods and services designed to meet the personal needs of consumers, offered at the right place and time [7].

Due to the basic operations taking place in the retail trade, the following functions were distinguished [2]:

- a) sales, determined by the assortment, location, working time of the store, customer service, also displaying and encouraging the purchase of the goods offered;
- b) purchase, including: selection of suppliers of individual goods, determination of the volume of ordered batches, conclusion of purchase contracts and organization of deliveries of purchased goods to retail outlets;
- c) maintaining stocks, including: receiving supplies of goods, proper positioning of stock in the sales department of a trading establishment.

Continuous flow in retail is an important element of mutual relations in the sphere of exchange (consisting of multiple vendors) and consumption, having many individual customers.

The following retail tasks are the result of these functions:

- a) gathering in one place various food and non-food products from multiple sources; continually replenishing the stock of goods offered to keep them available to all customers;
- b) selling in quantities necessary for current consumption according to the needs of each consumer.

On the basis of the criteria that discuss the essence of retail trade the following trade activities are distinguished [8]:

- a) direct: in fixed retail outlets, e.g. in department stores, supermarkets and hypermarkets, discount stores and others,
- b) indirect: without the fixed points of the retail network, e.g. mail order, telephone sales, vending machines, etc.

The functioning of trade is related to the organizational and legal forms of economic entities, including partnerships and limited companies, and its development with the development of capital relations within capital groups. The capital group is a group of independent legal entities or entrepreneurs who are directly or indirectly controlled by one entrepreneur [9].

A holding or parent company is a commercial company that satisfies one of the following conditions: it has the majority of votes at its shareholders' meeting or at a general meeting; it is entitled to appoint or dismiss a majority of the members of the management board or of the board of directors of another capital company; has the majority of votes in a subsidiary partnership or has a decisive influence on the activity of a capital company [10].

The dynamic development of trade in Poland is based on franchise. The literature cites many of the benefits of doing business in the franchise system, including national and international range of business [11]. The contract constituting the franchise business is classified in the category of innominate contracts concluded on the basis of the general terms of art. 353 c.c. Rules of Contractual Freedom [12]. Franchising is associated with the provision by one party (the franchisor) to another party (the franchisee) the rights to his trade or service mark and trade name. Franchising means the whole range of economic relations within which the owner of a product, process or name authorizes another company (person) to conduct a specific activity, in exchange for a certain fee [13].

3. THE STATE OF DEVELOPMENT OF WHOLESALE AND RETAIL TRADE IN POLAND

Using data from the Central Statistical Office in Poland, information on the level of wholesale sales in Poland in the years 2005-2015 was compiled, broken down into outlets with a sales area of over 2500 m², which is characteristic for hypermarkets and self-service stores like Cash & Carry.

The number of stores in general and hypermarkets and self-service wholesalers typical of large-scale trade shows an upward trend in Poland. As of the year 2015, their number increased by 3.4% relative to the year 2013 and reached 1006 outlets, while the total number of stores increased by 2.1% to over 360,000.

Table 1. Total number of stores in general and large-area stores in the private sector in 2005-2015

Large-area stores	2005	2010	2013	2015	2015/2013
2500 m ² and more	544	857	972	1006	+3,4%
Total	344673	344982	353211	360750	+2,1%

Source: Statistical Yearbook of the Republic of Poland 2016, Stores and Petrol Stations, Commerce and Catering, GUS [14]

Wholesale is characterized by diverse assortment and growing interest of institutional customers. In 2015, almost 84% of wholesale purchases included non-food products, such as household chemicals, and alcoholic beverages had a 2.8% share of sales. The total sales value of commercial companies recorded an upward trend and reached over PLN 1 trillion in 2015, an increase of more than 20% over 2010.

The latest comparisons show retail and wholesale sales in Poland in the period 2005-2015, determined in PLN million. Between 2005 and 2013, wholesale sales showed a higher growth rate than retail sales. After 2013 there was a stabilization of the market or a slight annual increase in sales (Figure 1).

The first three of the biggest wholesalers are entities with foreign capital: Eurocash SA Group, Makro Cash and Carry and Selgros LLC, specializing in the service of micro and small retail and service companies. The analyzed form of wholesale trade is developing in Poland very well, as evidenced by the number of about 190 Eurocash wholesalers, 33 Makro halls and 17 Selgros plants (as at the end of 2016).

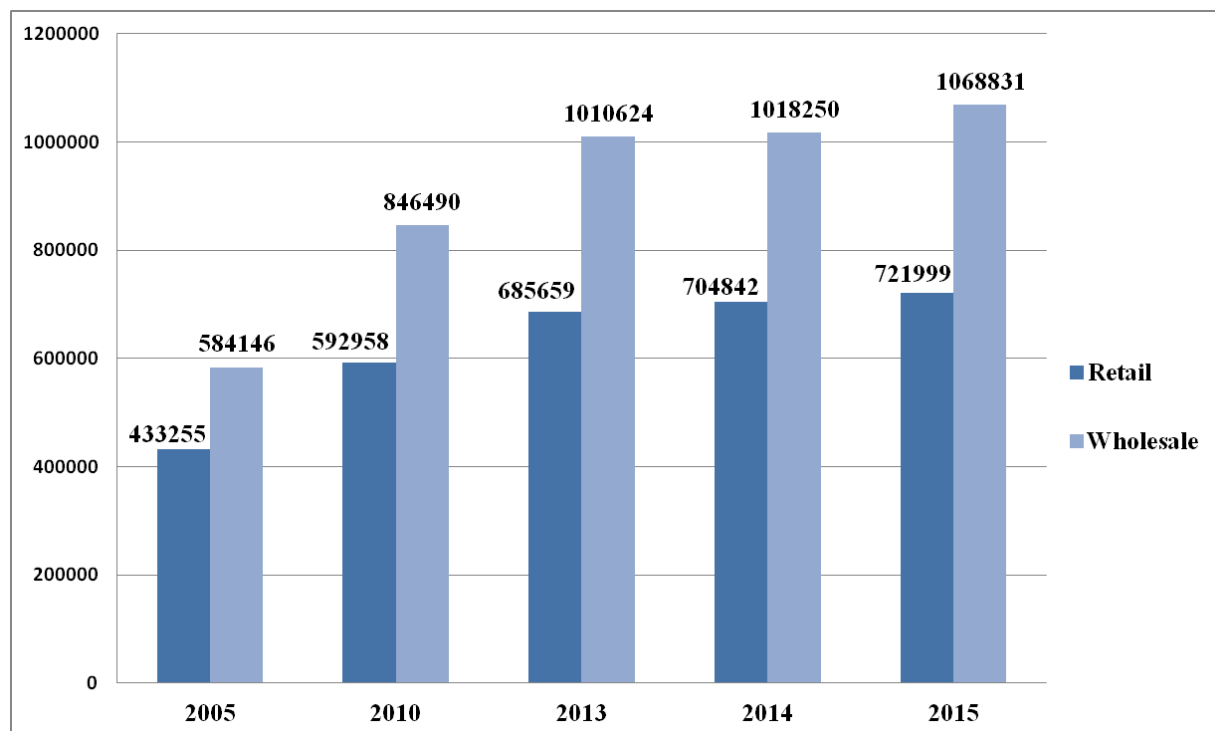


Figure 1. Comparison of total sales in 2005-2015 in retail and wholesale trade
 Source: Statistical Yearbook of the Republic of Poland 2016, Total Wholesale, Total Retail, Section XX; Commerce and Catering, GUS [14]

4. PRESENTATION OF THE EUROCASH GROUP

Eurocash Group (Figure 2) is one of the largest groups involved in the distribution of food products, household chemicals, alcohol and tobacco. It ranks in the top in terms of sales value and number of outlets.

In terms of organizational and legal form, it is the capital group with the parent company of Eurocash SA. The share capital of the Company is PLN 137,486,636 (one hundred thirty seven million four hundred eighty six thousand six hundred thirty six zloty and 00/100). The Company has been listed on the stock exchange since February 4, 2005. The nominal value of one share is PLN 1 and the debut price is PLN 3.26. A total of 7 share issues were made.



Figure 2. Eurocash Group Logo

Source: <http://eurocash.pl/grupa-eurocash/grupa-eurocash.html>, access 5.07.2017 [15]

The Eurocash Group is comprised of business units representing different brands (Figure 3) and the legal structure of the capital group can be presented in four dimensions:

- Wholesale: Eurocash Serwis Sp. z o.o., DEF Sp. z o.o., Polska Dystrybucja Alkoholi Sp. z o.o., Jantón Detal Sp. z o.o. oraz Zagłoba Sp. z o.o.
- Franchise: Eurocash Franczyza Sp. z o.o., Lewiatan Holding S.A., Lewiatan Podkarpacie Sp. z o.o., Lewiatan Północ Sp. z o.o., Lewiatan Kujawy Sp. z o.o., Lewiatan Wielkopolska Sp. z o.o., Lewiatan Opole Sp. z o.o., Lewiatan Orbita Sp. z o.o., Lewiatan Zachód Sp. z o.o., Lewiatan Podlasie Sp. z o.o., Lewiatan Śląsk Sp. z o.o., Detal Podlasie Sp. z o.o., EURO SKLEP S.A. oraz PSD S.A.
- Retail: Inmedio Sp. z o.o., Firma Rogala Sp. z o.o., Eurocash Detal Sp. z o.o., Eurocash Convenience Sp. z o.o., Kontigo Sp. z o.o., Duży Ben Sp. z o.o., FHC-2 Sp. z o.o. oraz Madas Sp. z o.o.
- Other: PayUp Polska S.A., Frisco S.A., Eurocash Trade 1 Sp. z o.o., Eurocash Trade 2 Sp. z o.o., Premium Distributors Sp. z o.o., Przedsiębiorstwo Handlu Spożywczego sp. z o.o. Eurocash VC2 Sp. z o.o., Eurocash VC3 Sp. z o.o., Abc na kołach Sp. z o.o., Eurocash Food Sp. z o.o., Sushi To Go Sp. z o.o. Sushi To Go Sp. z o.o. Sp. k., 4vapers Sp. z o.o., Eurocash Nieruchomości Sp. z o.o. oraz Detal Finanse Sp. z o.o.

The Group has a variety of sales formats, where it concentrates its activities on the wholesale distribution of goods to the customer from all segments of the traditional wholesale market, especially for traditional retail stores, convenience stores, or chain of restaurants, hotels and cafes.

In terms of organization, there are four areas of activity:

- Cash & Carry - nationwide discount wholesale chain Cash & Carry under the brand "Eurocash Cash & Carry"
- Franchise Systems: Delikatesy Centrum - franchise system for retail stores under the Delikatesy Centrum brand and 4,750 retail franchised and partner stores under the following brands: Lewiatan, Peas, Euro Shop, Range / PSD
- Active Distribution: Eurocash Dystrybucja - the largest distributor of FMCG products that sells goods with delivery to the customer.
- Specialized Distribution, including: Eurocash Gastronomía (supply chain for restaurants, hotels), Eurocash Alkohole (specialized distribution of alcoholic beverages) and Eurocash Serwis (distribution of tobacco and impulse products).

Business units



EuroCash Group brands



Figure 3. Business units and Eurocash Group brands
 Source: <http://eurocash.pl/grupa-eurocash/struktura-grupy.html>, access 5.07.2017 [15]

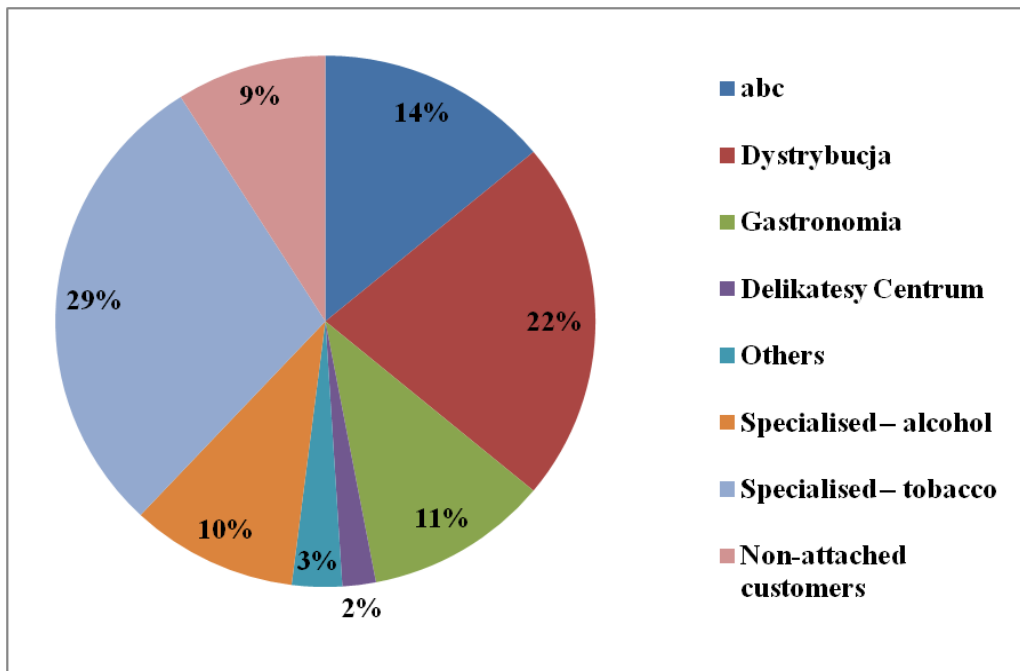


Figure 4. Share of individual sales formats in the Eurocash Group
 Source: Eurocash Group - consolidated annual report for 2016, p. 9 [15]

The share of individual sales formats is presented in Chart 4, which shows distribution and specialization as the main components of the group. An important element for the company is the nationwide chain of discount self-service wholesale stores of the "cash & carry" type, which accounts for 23% share among the different sales formats. Other formats complement the pillars of the group, including franchise stores and the Horeca market.

The aim of the group is to ensure the competitiveness of independent retail stores in Poland, providing equal opportunities for cooperation through specific distribution formats, including small and medium retail stores, Cash & Carry wholesalers and distribution of goods to the Horeca sector.

At the end of 2016, the wholesale network of the Eurocash Group comprised 190 Cash & Carry wholesalers; Delikatesy Centrum chain comprised 1086 supermarkets; abc chain comprised 8605 local grocery stores, and franchised and partner stores of Eurocash Dystrybucja chain combined 4750 retail stores (Table 2). There is a strong development of franchised outlets and small food stores "abc".

Table 2. Share of individual store formats in the Eurocash Group

Specification	2016	2015	Change 2016/2015
wholesale stores Cash&Carry	190	187	+3
Delikatesy Centrum	1086	1076	+10
„abc” chain	8605	7658	+947
Franchise and partner chains Eurocash Dystrybucja	4750	4554	+196

Source: Eurocash Group - consolidated annual report for 2016, p. 17

The organizational and legal aspects of Eurocash Capital Group operations are presented in three areas: Eurocash Cash & Carry, Retail and franchise systems and so-called Active distribution.

Eurocash Cash & Carry includes 190 discount wholesale stores throughout the country with over 5000 products in stock. First of all, it serves small and medium-sized general stores. The concept of Euro Cash & Carry is based on offering daily low prices on over 70% of the most purchased items. Such strategies provide customers with better competitiveness in their stores (www.eurocash.pl) [15].

The area of retail sales, including activity in the form of a franchise is the largest area of Eurocash group which includes, among others, grocery stores: over 8600 abc stores and 45,000 non-affiliated shops and small supermarkets, bringing together more than 10 thousand non-affiliated stores, including franchise partnerships (4750 shops such as Lewiatan, Groszek, Gamma and Euro shop), small supermarkets described as modern franchises (1086 Delikatesy Centrum outlets) and own stores (248 Eko stores). The group is the majority shareholder of Inmedio stores (470 stores).

Delikatesy Centrum has been operating since 1999, offering innovative solutions in the form of a franchise agreement, wholesale and retail integration and operational support. By the end of 2016, the number of stores was 1086. (www.delikatesy.pl) [16].

Leviathan is a retail chain operating in a franchise system, bringing together small entrepreneurs and tradesmen, offering a joint offer and trademark. They are mainly located in housing estates and small towns. Shops offer over 300 products under their own brand name (Report 2016) [15].

In the area of the so-called active distribution operates Eurocash Dystrybucja. It includes, among others, direct distribution companies, companies organizing and supporting franchise chains and partner retailers (e.g. Euro Sklep S.A., Detal Podlasie Sp. z.o.o.). It has 12 distribution centres and 36 transshipment units, with over 27,000 items in its product portfolio. Their customers are independent customers (123,000 in 2016) and gas stations. The chain provides complex delivery service. Orders are submitted via the modern eHurt platform, on average twice a week. Customer contracts are franchised. This ensures a uniform visualization of the stores in two formats: convenience stores and supermarkets. In addition, the Company ensures punctual delivery, which is guaranteed by an IT system integrated with barcode scanners in warehouses with an area of 250,000 m². (www.dystrybucja.eurocash.pl) [17].

The specialized distribution area includes Eurocash Serwis Sp. z o.o. and two segments Eurocash Gastronomica and Eurocash Alkohole.

Eurocash Serwis Sp. z o.o. is a leader in tobacco products and impulse products in the distribution market. It was established on the market by the combination of two leading distributors of impulse products - KDWT and a dedicated part of Kolporter. At present, the company has 120 subsidiaries and 12 branches located in major Polish cities. Eurocash Service specializes in off-the-shelf sales. The proposed assortment includes, among others, cigarettes, candies, batteries, over-the-counter medicines. Products are distributed through sales representatives, vendors and specialists in telesales (www.serwis.eurocash.com) [18].

The Eurocash Alkohole segment makes sales by Eurocash SA (formerly Premium Distributors) being the largest alcohol distribution network in Poland. It supplies retail stores and the Horeca segment. It has more than 50 subsidiaries in Poland, employing more than 200 sales representatives. Delivery of the order made to the sales representative takes place within 24 hours. The proposed assortment is a scope of about 3,000 products ranging from exclusive spirits to popular wines. Eurocash Group also imports wines (www.eurocash.pl) [14].

The Eurocash Gastronomica segment makes sales through Eurocash SA to the eateries (HoReCa). This segment serves the Casual Dining restaurant chain throughout the country. It has been extracted from McLane Polska Sp z o.o. and has been with Eurocash Group since April 2008.

Customers belonging to this chain have their own assortment lists, and orders are made through a data exchange platform (EDI) and a specially created website. When making fax orders, customers connect to SAP software and available applications that provide fast data flow. Eurocash Gastronomica cooperates with many suppliers including: Animex, Tchibo, Lubella, and Bonduelle. (www.gastronomia.eurocash.pl) [19].

5. CONCLUSIONS

The example of Eurocash Group outlines the strategy for the development and functioning of a modern wholesale and retail channel. Functioning in the form of a capital group and development through the franchise system allow for a mutual complementarity of individual formats of outlets, guaranteeing retail and institutional customers the complex execution of purchase orders in Cash & carry format, retail format, and distribution for the Horeca sector. In retail, the development of small and large supermarket formats, acting on the principle of partnership or franchise, allows for effective competition strategies. Investment activities result in an increasing number of outlets in all sales formats. This study points to the imperative of modern trade development in terms of the diversified operations of the capital group and the expansion of outlets in various formats through franchise.

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